

May 31, 2010

Economic Weekly



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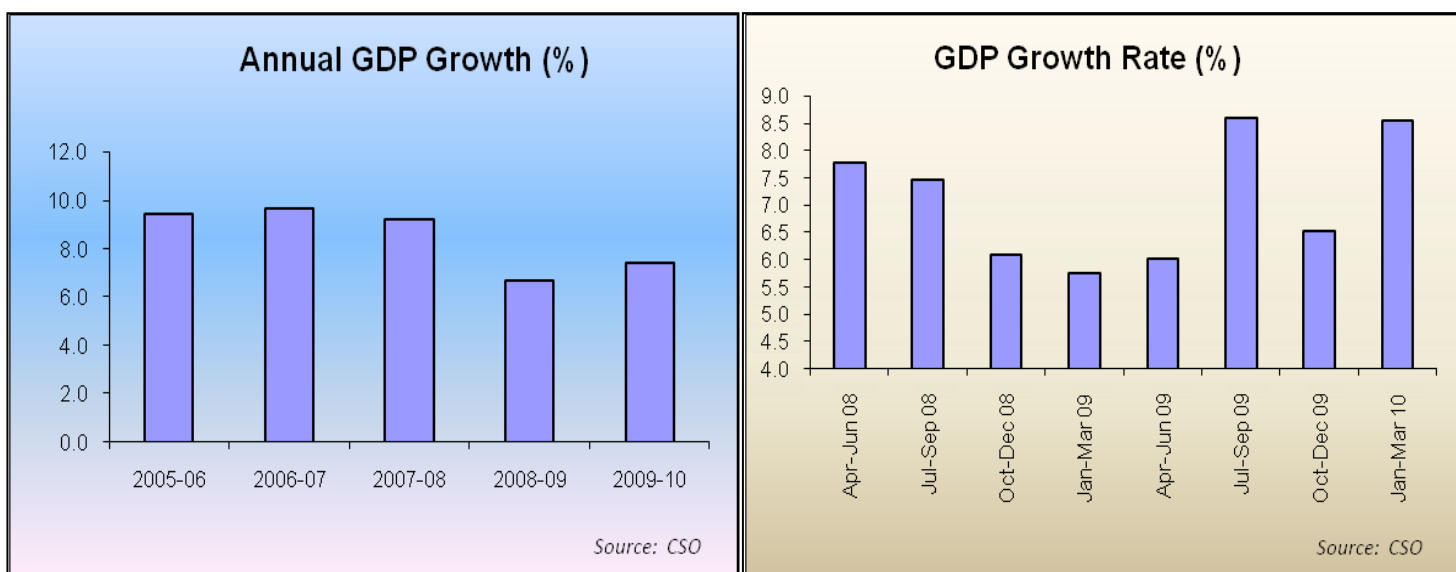
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Indian Economy

GDP Growth Higher Than Market Expectations

Gross domestic product (GDP) for FY 2009-10 stood at 7.4%, higher than CSO's advance estimate of 7.2%. The higher than expected growth is on account of upward revision in agriculture and industry sub-sectors. In the Jan-Mar '10 quarter, growth stood at 8.6% (YoY) — in line with market expectations.



These figures augur well for the Indian economy, putting it back on a high growth trajectory. Most agencies estimate Indian growth at around 8.5% for 2010-11.

There are three approaches to calculate GDP — theoretically different ways to arrive at the same number. To calculate a person's income we can add his total income from various sources, or his total production, or his total expenditure on various goods and services. All three should ideally lead us to the same number. The same concept is applied in GDP calculation.

So the three approaches are:

- Production approach: Total production by various sectors — agriculture, industry and services
- Expenditure approach: Total expenditure by households, government, business etc
- Income approach: Total income generated by households and businesses

The Indian government releases data for the production and expenditure approach. Income wise data is difficult to estimate and is not provided.

Production approach or sector-wise growth

Industry: Industrial growth for Jan-Mar '10 stood at 15.1%. It continues to pick up sharply from the Jul-Sep '09 quarter onwards. It slumped in the Oct-Dec '08 quarter following the global crisis but recovered smartly in 2009-10.

Earlier, the graph of industrial growth showed recovery as a V-shaped one. Now it resembles a hockey stick.

Industry is divided into three sectors –

Table 1: GDP Growth At A Glance (% YoY)

	2008-09	2009-10 (Advance estimates)	2009-10 (Revised estimates)
Agriculture	1.6	-0.2	0.2
Industry	3.1	8.8	10.4
Services	9.3	8.5	8.3
GDP	6.7	7.2	7.4

Source: CSO

- Mining & quarrying,
- Manufacturing and
- Electricity, gas & water supply.

Growth in all three sub-sectors has been higher in each subsequent quarter.

In the first half of FY10, much of the growth was because of various stimulus measures taken by the government — NREGA, Sixth Pay Commission disbursements, excise duty cuts etc — to negotiate the global crisis. These measures led to increase in income, which led to a surge in demand for durable goods like washing machines and television. Durable goods have continued to grow in double

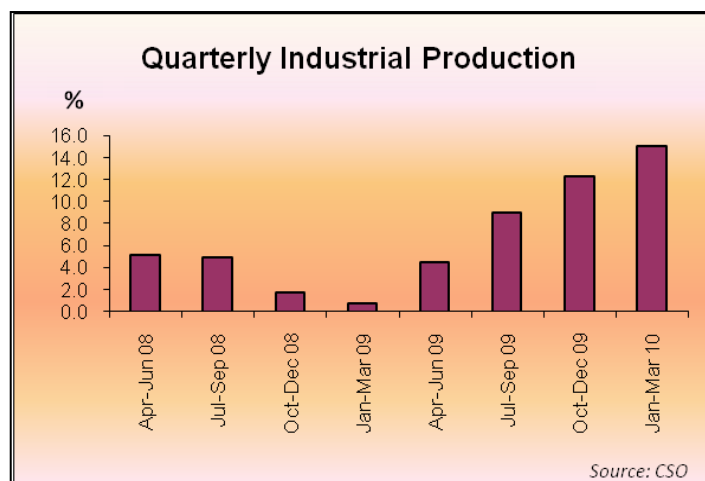
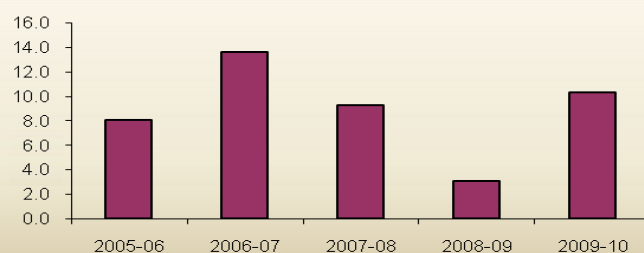


Table 4: Quarterly Growth In Industry Sub-Sectors (% , YoY)

	Apr-Jun 2009	Jul-Sep 2009	Oct-Dec 2009	Jan-Mar 2010
Mining & quarrying	8.2	10.1	9.6	14.0
Manufacturing	3.8	9.1	13.8	16.3
Electricity, gas & water supply	6.6	7.7	4.7	7.1
Industry	4.6	9.0	12.3	15.1

Source: CSO

Annual Growth In Industry (% , YoY)



Source: CSO

digits since April 2009. The stimulus began to decline from October 2009 onwards, but growth in consumer goods sales remains in double digits. The average growth rate in consumer durable sales in Oct-Dec '09 and Jan-Mar '10 stood at 34.7% and 31.2% respectively. In October and November, it was because of the festival season and from Dec '09 onwards it could be because of a pick-up in the economy itself.

From October 2009 onwards, the index of industrial production (IIP) data showed growth across all sectors. Growth was particularly impressive in capital goods — a sector that grew at an average of 42.4% in Jan-Mar '10.

In annual terms, industrial growth for 2009-10 stood at 10.4%, much higher than the advance estimate of 8.8%.

The Central Statistical Organisation (CSO) had estimated the growth trends for 2009-10 based on average growth seen in Apr-Nov '09. IIP-manufacturing registered a growth of 7.7% in Apr-Nov 2009 and hence CSO estimated the industry growth for 2009-10 at 8.9%. However, average IIP growth for Apr-Mar '10 was much higher at 10.9%, leading to a much higher growth in GDP-manufacturing sector at 10.8%. Same was the case for the mining and electricity sub-sectors too.

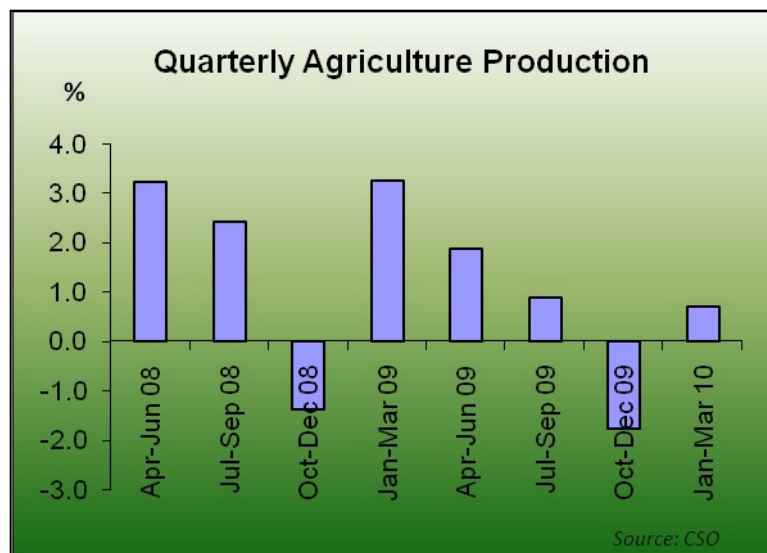
Agriculture: It increased by 0.7% in Jan-Mar '10 — lower than market expectations. It could be because of rabi production which was revised lower in third advance estimates. In the second advance estimates of the ministry of agriculture, rabi production was expected at 117 million tonnes, but was revised lower to 115.85 million tonnes. This was because of lower expected production in cereals like barley and maize.

In annual terms, agriculture growth for 2009-10 stood at 0.2%. As indicated above, it has been revised upwards from the -0.2% given in

Table 4: Annual Growth In Industry Sub-Sectors (% , YoY)

	2008-2009	2009-10 (advanced estimate)	2009-10 (Revised Estimate)
Mining & quarrying	1.6	8.7	10.6
Manufacturing	3.2	8.9	10.8
Electricity, gas & water supply	3.9	8.2	6.5
Industry	3.1	8.8	10.4

Source: CSO



CSO's advance estimate released in Feb '10. It was revised upwards on account of better-than-expected growth in the Oct-Dec '09 quarter. In the third advance estimates, total kharif foodgrain production is higher than the second estimates by 2.5%. About 82% of kharif production is included in the Oct-Dec '09 quarter. So we see an upward revision in Oct-Dec '09 and subsequently in FY 2009-10. The late rains in September helped kharif non-kharif crops like Sugarcane and cotton and also some kharif foodgrain crops like rice and *jowar*.

It has been quite a year for rabi and kharif crops. Due to a severe drought, kharif production was expected to suffer. However, because of late rains in Sept '09, it recovered and was revised upwards with each estimate. The case for rabi was opposite with downwards revisions in each advance estimate.

Given all this, it is important to focus on the bigger picture. The Planning Commission has kept an annual growth target of 4% for agriculture in the 11th Plan. The target has been put to provide impetus to agriculture and bring investments in to this sector.

Around 70% of the population depends on agriculture. So growth is needed here to sustain a large percentage of the population as well. The 11th plan falls in the 2007-12 period. In the first three years of this period, average agricultural growth stood at 2.2%. This is highly disappointing and much more needs to be done to improve the trend.

Services: Growth in services in the Jan-Mar '10 quarter stood at 8.5%, higher than the 7.3% seen in Oct-Dec '09 quarter.

Services is divided into four sectors

- Construction
- Trade, hotels, transport & communication
- Financing, insurance, real estate and business services
- Community, social and personal services

Growth in construction and trade & hotel services has picked up with overall increase in economic activity and business sentiment. That in the financial services sector has remained stagnant because of contin-

Table 2: Growth Rate In Jan-Mar Qtr (YoY, %)	
2000-01	-4.3
2001-02	8.8
2002-03	-8.2
2003-04	10.3
2004-05	2.6
2005-06	6.4
2006-07	5.3
2007-08	2.2
2008-09	3.3
2009-10	0.7

Note: Data from 2000-01 to 2007-08 based on 1999-00 base.
2008-09 and 2009-10 are based on 2004-05 base

Source: CSO

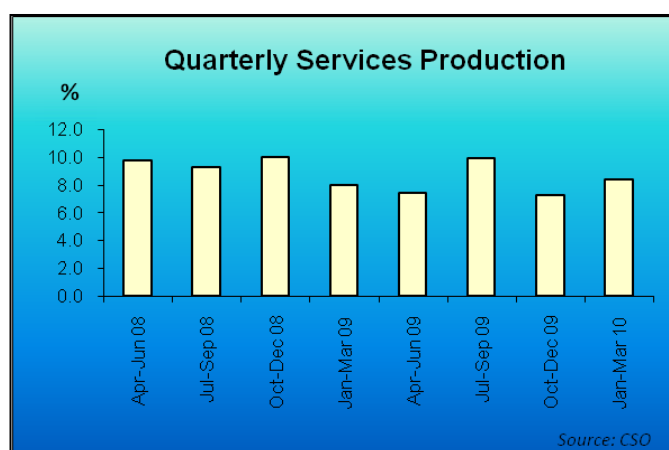
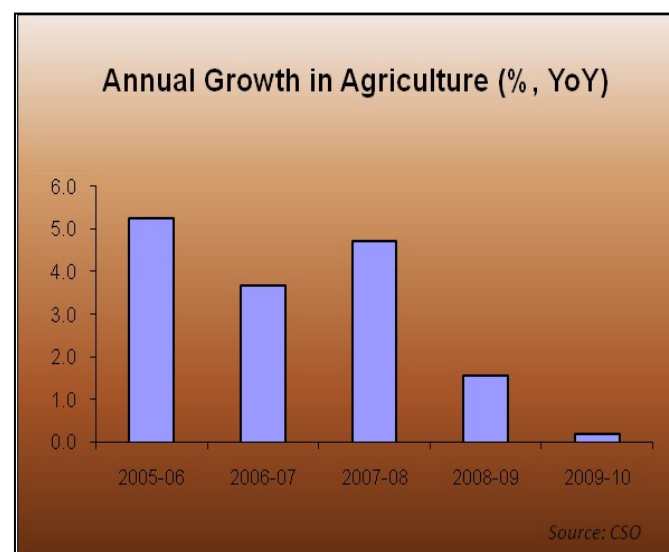


Table 5: Quarterly Growth In Services Sub-Sectors (% , YoY)

	Apr-Jun '09	Jul-Sep '09	Oct-Dec '09	Jan-Mar '10
Construction	4.6	4.7	8.1	8.7
Trade, hotels, transport & communication	5.5	8.5	10.2	12.4
Financing, insurance, real estate & business services	11.8	11.5	7.9	7.9
Community, social & personal services	7.6	14	0.8	1.6
Services	7.5	10	7.3	8.5

Source: CSO

ued uncertainty in financial markets. Growth rate in community, social and personal services has declined sharply as the fiscal stimulus has eased.

In annual terms, growth in services stood at 8.3% in 2009-10 — lower than the advance estimates of 8.5%.

Sub-sector wise analysis shows that growth was lower than the advance estimates because of lower growth in community, social and personal services. CSO says this is because of the lower-than-expected government expenditure.

In Apr-Dec '09, central government expenditure showed a growth of 18.5%, which was extrapolated in the advance estimates. However, as per revised estimates, government expenditure showed a rise of 15.6% in 2009-10.

Annual Growth In Services (% , YoY)

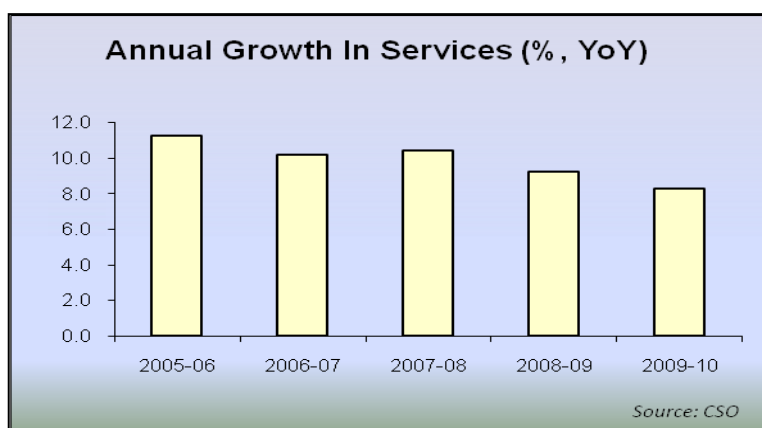


Table 6: Annual Growth In Services Sub-Sectors (% , YoY)

	2008-09	2009-10 (Advanced estimate)	2009-10 (Revised estimate)
Construction	5.9	6.5	6.5
Trade, hotels, transport & communication	7.6	8.3	9.3
Financing, insurance, real estate & business Services	10.1	9.9	9.7
Community, social & personal services	13.9	8.2	5.6
Services	9.3	8.5	8.3

Source: CSO

Expenditure approach

This is also the popular approach used in economics textbooks.

$Y = C + I + G + X - M$, where:

Y = income or GDP

C = Household consumption

I = Private sector investment

G = Government expenditure/investment

X = Exports

M = Imports

When this approach is adopted, a decline in government expenditure becomes visible — from 30.5% in Jul-Sep '09 to 2.1% in Jan-Mar '10. However, private investments growth picked up sharply and stood at 17.7% in the Jan-Mar '10 quarter — a very positive development. In the high growth period of 2003-08, when GDP grew by an average 8.9%, investments was the engine. Average investment growth in that period was 17.1%.

Apr-Jun '08	3,45,296
Jul-Sep '08	3,67,540
Oct-Dec '08	3,64,486
Jan-Mar '09	3,93,838
Apr-Jun '09	3,42,912
Jul-Sep '09	3,73,583
Oct-Dec '09	3,96,500
Jan-Mar '10	4,63,451
Source: CSO	

	Apr-Jun '09	Jul-Sep '09	Oct-Dec '09	Jan-Mar '10
Consumption (C)	2.9	6.4	5.3	2.6
Government Expenditure (G)	15.3	30.5	2.5	2.1
Investment (I)	-0.7	1.6	8.8	17.7
Exports (X)	-16.0	-15.8	-7.5	14.2
Imports (M)	-8.5	-10.5	-5.8	-3.7
GDP (Y)	5.2	6.4	7.3	11.2
Source: CSO				

The increase in investment is not on account of a base-effect as the actual volumes have surged. Growth of household consumption continues to decline each quarter.

Exports and imports have improved since Nov '09 and it is reflected in the GDP trends as well.

In annual terms, growth in consumption is broadly in line with the advance estimates. Whereas, the growth in government expenditure, investments, exports and imports were higher than the advance estimates. This is puzzling because, based on the above analysis, growth in government expenditure should be lower in the revised estimates. This could possibly be the result of statistical discrepancy.

	2008-09	2009-10 (Advance estimate)	2009-10 (Revised estimate)
Consumption (C)	6.9	4.1	4.3
Government Expenditure (G)	16.7	8.2	10.5
Investment (I)	4.0	5.2	7.2
Exports (X)	19.3	-15.8	-6.7
Imports (M)	23.0	-17.2	-7.3
GDP (Y)	5.1	6.8	7.7
Source: CSO			

It is important to note that GDP growth, when calculated by the expenditure approach, is different from the production approach. The GDP-production approach shows growth of 7.4% for 2009-10, but stands at 7.7% by the expenditure approach. The difference is quite large most of the times. This is because of the complexities in the statistical system. India is a large country and the differences are bound to persist if we calculate GDP using two different approaches. Conceptually, both should show similar numbers, but is not possible practically. The methodology to compute GDP from the production approach is more robust and taken for computing GDP growth rates.

Summary

Overall, the GDP numbers paint a comforting picture. The government's share in GDP growth has declined and private sector investment has picked up. The economy looks on course to achieve 9% growth rates. Most think-tanks and institutions have put Indian growth for 2010-11 at over 8.5%.

Given these numbers and future growth outlook, RBI is expected to continue to increase its interest rates. However RBI will keep a watch on ongoing turmoil in Europe which can upset this growth momentum.

	2009-10	2010-11
RBI	7.5 with an upward bias	8 with an upward bias
PM's Economic Advisory Council	7.2	8.2
Ministry of Finance	7.2	8.5 (+/- 0.25)
IMF	6.7	8
ADB	7.2	8.2
OECD	6.1	7.3
RBI's Survey of Professional Forecasters	7.2	8.5
Source: RBI		

Sub-Group Inflation Trends

Note: Before we look at the WPI inflation trends, let us look at how WPI inflation is computed.

Year on Year (YoY): It means growth rate is calculated between the same period for different years. For instance, growth between October 2008 and October 2009. So if WPI was 100 in October 2008 and 110 in October 2009, YoY inflation for October 2009 is 10%. It is calculated to compare inflation in similar time periods and avoid seasonality issues. Like in India, the festival season is mostly in September and October. So, if we calculate inflation for October 2009, we calculate it based on October 2008. When media reports say inflation is 10%, it is mostly a Y-o-Y number.

We also get WPI-inflation for two sub-sectors (i.e. primary articles and fuel group) on a weekly basis (with a delay of a fortnight). In this case, we can also calculate Y-o-Y inflation for weekly numbers. So if the WPI index is 100 in the week ended December 6, 2008 and 110 in the week ended December 5, 2009, YoY inflation for the week ended December 5, 2009 is 10%. Again, this is the preferred approach for reporting weekly inflation.

Month on Month (MoM): It means growth rate is calculated between sequential months in the same year, like for instance September 2009 and October 2009. It is used to understand the trends in a given year. YoY growth rates may not show correct trends because of the base effect. Last year the WPI index increased sharply because of a rise in oil and commodity prices. Hence, MoM analysis is also important.

Week on Week (WoW): In this growth is calculated between sequential weeks in the same year, like primary articles inflation between week ended December 5, 2009 and November 28, 2009. Just like we use MoM to understand monthly trends, we calculate WoW inflation to understand weekly inflation trends in the same year.

Hence, while measuring inflation we usually use YoY changes for simplicity. However, as inflation percentage may be high or low because of the base effect we also see the week on week changes in WPI index.

- **Primary articles:** The primary articles index for the week ended May 15, 2010, declined from 299.2 to 298.9 (WoW). The primary articles' inflation declined to 15.9% (YoY). Primary articles is broadly divided into two sub-sectors — food and non-food articles.
 - ◆ **Food:** The food articles index for the week ended May 15, 2010, declined marginally from 293.9 to 293.6 (WoW). The food articles' inflation stood at 16.23%. The index decreased due to lower prices of pulses like *masur* and *urad*. Price of fruits & vegetables also declined. However, prices of tea, mutton and spices moved up.
 - ◆ **Non-food:** The non-food articles index declined from 282.1 to 281.8 (WoW). Non-food articles' inflation decreased to 18.25%. The index declined because of lower prices of oilseeds like gingelly, rape and mustard and linseed. Cotton and rubber prices too declined. However, prices of fodder, castor seed, copra and jute rose.
- **Fuel group:** The fuel group index for the week ended May 15, 2010, rose to 365.5 (WoW). Fuel group inflation was at 12.08%.

Agriculture: Sowing For Kharif 2010 Begins

The ministry of agriculture has said that the sowing of kharif crops has begun. As on May 28, 2010, rice has been sown in 3.37 lakh hectare compared to last year's coverage of 3.61 lakh hectare.

The cropped areas this year and last year for major kharif crops as on May 21, 2010, are shown in the accompanying table.

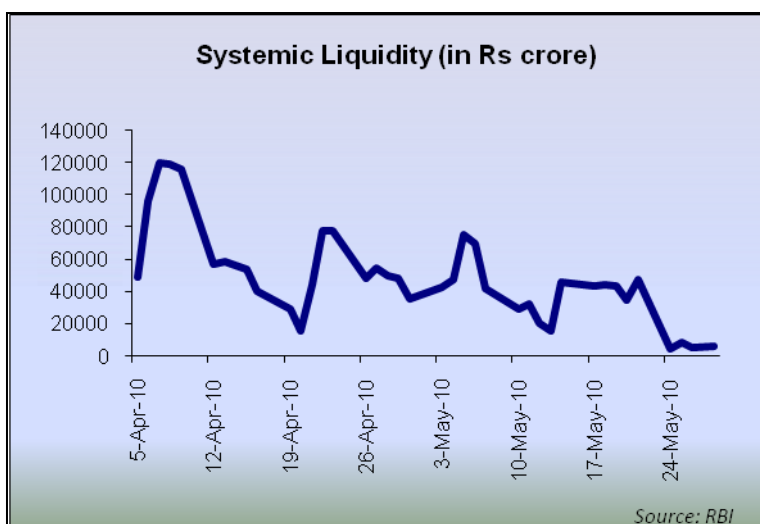
Crop	Area as on May 28, 2010	Area as on May 28, 2009
Rice	3.37	3.61
Groundnut	0.075	0.100
Sunflower	0.100	0.100
Total oilseeds	0.27	0.47
Arhar	0.055	0.033
Urad	0.090	0.060
Moong	0.110	0.060
Total Pulses	0.535	0.350
Sugarcane	42.85	40.75
Jute	6.806	6.746

RBI Watch

RBI Announces Liquidity Easing Measures

The systemic liquidity in the system declined in the previous week because of tax outflows and the 3G auction payments. As the figure shows, the decline was from 47,530 crore as on May 21, 2010, to 5,685 crore on May 26, 2010. Considering this, and the continuing global concerns with regards to financial markets, the Reserve Bank of India took measures to boost liquidity in the market.

- Currently, scheduled commercial banks are required to maintain 25% as statutory liquidity ratio (SLR). In case banks face liquidity pressures, they can borrow up to 0.5 % of SLR from RBI under the regular liquidity adjustment facility (LAF). If banks face a shortfall in maintenance of SLR because of this facility, they may seek waiver of penal interest purely as an ad hoc and temporary measure. This facility will be available till July 2, 2010.
- RBI conducts only one LAF facility in the morning. The second LAF (SLAF) will be conducted on a daily basis up to July 2, 2010. The SLAF will be conducted between 4.00 pm and 4.30 pm.



RBI added that both these measures are ad hoc in nature and will be available with effect from May 28, 2010, and up to July 2, 2010.

RBI Staff Study On Importance Of WTO Doha Round For India

RBI released a staff study that examines the major issues delaying the conclusion of the Doha Round and the dissenting views of WTO member countries, particular that of India, on these issues.

WTO initiated a round of trade negotiations in 2001, in which member countries were asked to negotiate on the next round of trade liberalisation measures. Developed economies were expected to open up their agriculture markets while developing countries were expected to open up their manufacturing and service sectors. These discussions were held in Doha (Qatar) and since then have been known as the Doha Development Round. Unfortunately, these rounds haven't been completed till date despite numerous discussions and meetings.

The study looks at this deadlock and says efforts should be made to conclude the Doha Round as early as possible. Besides, it also recommends steps to push the talks forward.

For details please visit: <http://www.rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=589>

Politics

NAC Revived: Return Of The Activist UPA

If anyone thought that the UPA was losing that famed 'aam admi' look, then the ruling combine has just armed itself to dispel any such notions.

The National Advisory Council (NAC), the force behind the popular National Rural Employment Guarantee Scheme and the Right to Information (RTI) Act, is now back fortified with more activist ammo.

It was being said by insiders as well as outsiders that the UPA was losing its 'social (*ist?*)' orientation ever since it lost the Left's support and the NAC went dormant in 2008. Congress chief Sonia Gandhi had to quit as the NAC chairman over an office of profit dispute in 2006. However, with her return at the helm of affairs in March, the stage was set for revival in the 'aam aadmi's' fortunes.

It is difficult to miss the effort Prime Minister Manmohan Singh took to tone down the NAC's importance. "*It (NAC) is not a super cabinet. It is an advisory body,*" he said at the press conference to mark UPA-II's one year. While the NAC is certainly not a super-cabinet, the influence it wields over key government policies and initiatives — mostly through Ms Gandhi — is unmistakable.

Perhaps, AICC spokesperson Shakil Ahmed set the tone when he said: "*This is an advisory council on important issues which the government might have overlooked.*" For a glimpse of the give and take between the NAC and the government, refer to our view on The Food Security Bill in the edition dated April 12, 2010 (*Playing On An Empty Stomach: The Food Security Bill*).

In its new avatar, the 35-member NAC has been strengthened with some new civil society stalwarts, besides veterans like economist-activist Jean Dreze, Right to Information campaigner Aruna Roy, retired bureaucrat N C Saxena and economist A K Shiva Kumar.

The new additions include women's and minority rights activist Farah Naqvi, businesswoman and philanthropist Anu Aga, agricultural scientist M S Swaminathan, former Reserve Bank of India economist and noted Dalit writer Narendra Jadhav, social worker Deep Joshi, ecologist Madhav Gadgil and former bureaucrat-turned-rights activist Harsh Mander.

Now, media reports say, key terms like 'developmental issues', 'inclusive growth' and 'social sector reforms' have got additional teeth, if not a new set of dentures.

For instance, the government's suspected plan to whittle down the RTI now is seriously threatened with the inclusion of Roy, who authored the bill in the first place. In another dimension, inclusion of Mander and Naqvi — vocal critics of the Centre's tackling of the Naxal issue — will bring in a counterweight to many hardliners in the UPA.

While the humane face of the UPA's reforms agenda has been firmly re-established, the move will also visibly shrink the combine's room to manoeuvre. Especially with the last word expected to rest with Ms Gandhi herself.

President In China: Inviting The Dragon's Bankers

It would seem preposterous to suggest that India and China are on the verge of building the next level of their bilateral relationship. Not with the regular springing up of paranoia and media hysteria in the two countries about each other's long term intentions. Not with the relics of a tempestuous history — like the McMahon Line and Dalai Lama or Tibet — still playing peek-a-boo with either's national psyche.

But when a new generation of Chinese leaders say they are ready for a 'new starting point' in their India ties, when India invites China's banking giants to set shop here, when China acknowledges that trade imbalance (in favour of China) is unsustainable and promises to seriously address the issue, then one will not be off the mark in saying that a new confidence between the two mercurial neighbours is growing roots.

Of course, President Pratibha Patil's long trip to China last week was also marked by the customary T-word, 'civilisational bonds' and 'Asian bonhomie'. But a subtle change in tone was there, for anyone anyone who cared, to catch. For a visit coming in the backdrop of noise over border incursions, an unnerving Sino-Pak nuclear deal and India's suspicion about Chinese telecom majors, the general mood seemed to carry the 'let's forget the past' spirit.

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